

Business & Economy

In downtown LA, residential building trumps commercial

Ben Bergman August 07 2015



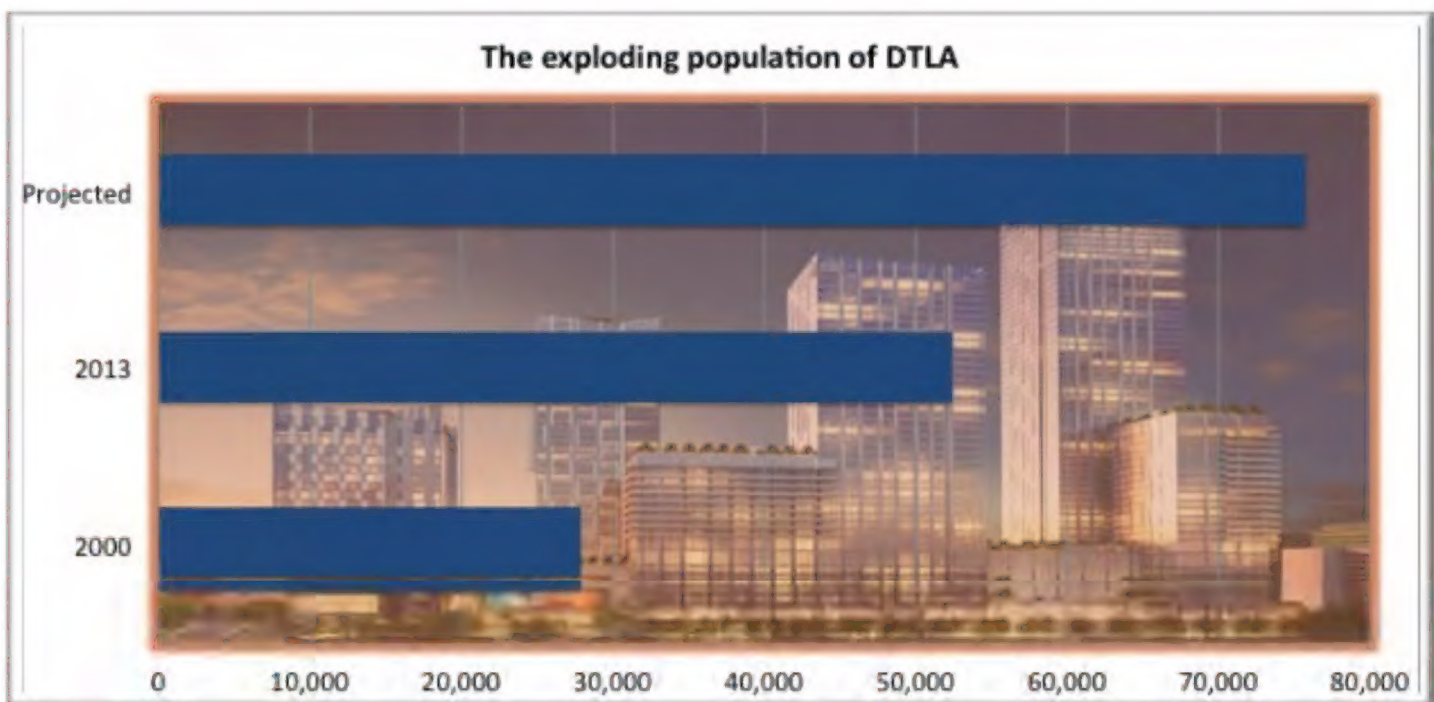
Circa will feature nearly 650 luxury units. "What needs to hit right now is housing units," said the developer leading the project. "There has actually been virtually zero commercial built here since the 90's." THE HOYT ORGANIZATION

For decades, downtown Los Angeles has been known as a place to work.

But that's quickly becoming an outdated notion, as high-rise office space sits vacant, while dozens of luxury condo buildings spring up;

Less than 3 percent of the area's workforce is now in downtown, according to Wendell Cox, principal of Demographia. Almost a fifth of downtown's existing office space sits empty; one of the highest vacancy rates in the country.

But the number of people who call downtown home is growing fast. In 2000, just 27,849 people lived downtown, according to the U.S. Census Bureau. By 2013, the population grew to 52,400, according to the Los Angeles Downtown Center Business Improvement District. That group estimates the population will surpass 75,000 when all the developments currently under construction are completed.



It's been a rapid change for downtown, says Dominic Ng, chairman of East-West Bank. He remembers a developer named Tom Gilmore, who tried to get financing for what seemed like a crazy idea back in 1990s: turning office buildings into condos.

"Nobody was willing to do it, because they said it's impossible to turn downtown into a residential area," remembers Ng.

Ng eventually made the loan, but he admits being skeptical that people would actually want to live downtown.

"After office hours, the only thing left in downtown was homeless people," he said.

But more developers began doing the same thing. A flood of conversions followed after the city passed the Adaptive Reuse Ordinance in 1999, which made the permitting process easier.

"The passing of the Adaptive Reuse Ordinance in 1999 has allowed old buildings to transform into new housing, making downtown L.A. a true residential market," said Bradford McCarthy, a senior vice president at CBRE Capital Markets. "Before 1999, the total number of residential units was 11,626, and (it) has steadily increased to the present day while the commercial market has remained relatively flat in size."

Today, there are only 16 projects proposed or being built downtown that include any office space, compared to 65 residential projects, according to the Downtown Center Business Improvement District.

"What needs to hit right now is housing units," said Scott Dobbins, who is leading the construction of Circa, a new luxury development that recently broke ground next to Staples Center with 648 luxury apartments. "There has actually been virtually zero commercial built here since the 90s."

A billion-dollar mega development

The largest development currently under construction in downtown is Metropolis. It will include over 1500 condos, a boutique hotel, and high-end shops. The first tower, which is still more than a year away from opening, is more than 50 percent sold, according to Michael Altneu, vice president of marketing for Douglas Elliman, the sales agency for the building.

"If you take a look at the site here, it's a 6.3 acre site, with four towers," said Altneu, as he gazed out a window. "It's slated to be the largest mixed-use development on the west-coast."

Downtown L.A. has become known nationally as a culinary hotspot; "America's Next Great City Is Inside L.A.," declared GQ, in a glowing story published two years ago.

"Five years ago people wouldn't be saying, 'Let's go downtown, let's go to this restaurant,'" said Altneu. Now, some of the best restaurants in all of Los Angeles are here. Some of the best museums are here. So people are coming here, and they want to live in this."

If someone wanted to move into a new condo downtown right now, they couldn't. Those have all been snapped up, according to CBRE's Bradford McCarthy, who said developers can't build new apartments fast enough to keep up with the area's exploding population.

"These are people that want to have more of an urban experience and be able to live in a space where they can be comfortable, but then they walk out their front door to a handful of restaurants, or they can get on the train," said McCarthy.

The changing workplace

One reason why downtown has faded as an employment center is the workplace culture has changed.

Secretaries and stodgy corner offices are out while open floor plans and cool campuses are in.

"We're talking about a more open floor plan where there may not even be assigned seating," said McCarty. "Even law firms, accounting firms, and traditional financial services firms, a lot of them are going to some version of that model."

Because of advances in technology, businesses are renting less space, said Shawn Zackary, the owner of Falcon California Investments Inc.

"Office space is not as crucial to running a business as it used to be," said Zackary.

These trends are not unique to Southern California. Still, Los Angeles has one of the very few downtowns in the country that saw a loss of workers after the recession, according to an analysis of census data by City Observatory.

"We have fewer people working downtown than Seattle, which is barely one-sixth the size of L.A.," said Joel Kotkin, who teaches urban studies at Chapman University.

Kotkin says downtown has never been a particularly appealing place to work.


"One of the oddities of Los Angeles history – and I've studied it for a long time – is they kind of put downtown in the wrong place," said Kotkin. "If you put downtown in Santa Monica, you'd have something not so dissimilar to what's happening in San Francisco."


Companies like Twitter and Airbnb have located in downtown San Francisco in recent years in order to attract the best talent, which raises an interesting possibility for Los Angeles: If more people move downtown, and it becomes increasingly popular, will companies be far behind?

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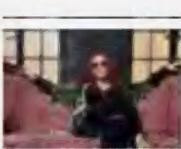
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